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A Competitive Two-speed Policy: The Eastern Partnership beyond 2013

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A redefinition of the Eastern Partnership beyond 2013 is urgently needed in order to make the EU a more competitive player vis-à-vis Russia and China in the region. Eastern partners which choose deeper economic integration with the EU must therefore be supported by enhanced cooperation, which would require further differentiation in approaches towards neighbours. It should also be supported by certain horizontal policies, strengthening the EU's multilateral cooperation and the fledgling European Union diplomacy in this region, assisted by better targeting policies at EaP societies.

The Eastern Partnership, directed at strengthening EU relations with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, has reached a decisive moment. By the time of the milestone Vilnius summit, organised by the Lithuanian presidency on the 28–29 November, it will be clear with which countries the EU will initial Association Agreements including Deep and Comprehensive Free Trade Agreements (DCFTAs), and if such a deal will be signed at all with Ukraine. After four years of existence, the Eastern Partnership (EaP), is thus at a stage where it must solve its first mature dilemmas. It must become more competitive and political, not least by working out different policies towards two distinct groups of neighbours, one which has chosen deeper economic integration with the EU and the other, which prefers closer relations with Russia or even China.

The crisis in the European economic and integration model has further diminished the prospects of new accession commitments, as well as denting its attractiveness to neighbouring states. As a result, the EU is facing competition in its neighbourhood as other players increase their spheres of influence; Russia is keen to enlarge its Customs Union, and China is bent on increasing its economic presence. At the same time, the bloc must shield itself from numerous threats arising from its direct proximity to the partners, such as irregular migration flows, potential conflicts and energy insecurity.

¹ The views expressed here are of the authors' own and they in no way represent the official position of any governments or research institutions.

Creating a competitive approach to the neighbourhood will require certain horizontal policies, connecting the Eastern partners to each other in the scope of the EU's multilateral cooperation, strengthening the European External Action Service in this region, and developing policies directed at EaP societies. But it will also require a greater and more overt readiness for differentiation between partners. Countries implementing DCFTAs will need a deeper relationship with the EU, while for those less open to relations, the EU will need to maintain its current level of engagement even in the face of hostility.

The challenge, therefore, is to advance a political approach which is both differentiated but avoids creating permanent disparities, one that is attuned to political realities but does not lose sight of the goal of promoting European norms, and which benefits societies without creating instability in the region.

Four Steps to a More Political EU Policy

Russia is ready to enlarge its Customs Union formed with Belarus and Kazakhstan in 2010,² and to counterbalance the conclusion of the DCFTAs with Ukraine, Armenia and Moldova by aggressive means (misuse of energy pricing, artificial trade obstacles, threats to withdraw security guarantees or threats to withdraw military cooperation, and “the instrumentalisation” of protracted conflicts).³ Due to the existing regime for the free movement of people, as well as language, cultural and religious ties, Moscow is better positioned than the EU to attract the majority of EaP societies. China, meanwhile, is developing its activities on the basis of tied credit, loans granted for infrastructural projects and the creation of joint ventures, along with the acquisition of local firms and a low level of direct investments.⁴ Economically, both Russia and China are well-placed trade partners for EaP countries—Russia is amongst the top three trade partners in almost all EaP countries (besides Georgia), while China is amongst the top five trade partners for Ukraine, Armenia, Belarus and Georgia.⁵

Although the EU will naturally have to cooperate with both Russia and China in dealing with this region, its core goal of democratising the neighbourhood and spreading its norms means that it will, above all, have to compete. This will require four adaptations.

Step One: Reforming EU Diplomacy

To be more effective in its policies towards neighbours, the EU has to strengthen its new diplomatic service, the EEAS. In order to do this, several challenges have to be overcome. The first of these is the weak coordination role of the European External Action Service over the Commission, across a broad spectrum of crosscutting policies such as development, trade, justice and home affairs, and energy. Development policy provides a case in point. Practical arrangements put in place under the Lisbon Treaty give both parties veto power if their views diverge. The EEAS and the Commission both have a say in formulating aid strategy documents, while the Commission retains control of neighbourhood budget implementation and aid programming at the technical, as opposed to the political, level. As the relations between both players are fixed only by an informal inter-institutional agreement, the decision-making process is dominated by personalities, leading to turf wars.

² This has already seen the elimination of some non-tariff barriers and could soon include a common external tariff and a joint customs code. See: O. Shumylo-Tapiola, *The Eurasian Customs Union: Friend or Foe of the EU?*, Carnegie Europe, October 2012.

³ As explained by Commissioner Štefan Füle's “Statement on the pressure exercised by Russia on countries of the Eastern Partnership,” 11 September 2013, http://europa.eu/rapid/press-release_SPEECH-13-687_en.htm.

⁴ For instance, in 2012 China agreed with Ukraine on \$3.6 billion in credit lines in exchange for delivering technologies. With Belarus, notably in the years 2005–2010, Beijing made available credit lines worth a total of \$16 billion, and several contracts for the implementation of joint projects have been signed (telecommunications, heating and power-plants), T. Iwański, *Ukraine, Belarus and Moldova and the Chinese Economic Expansion in Eastern Europe*, Centre for Eastern Studies, May 2012.

⁵ Data from 2012, <http://ec.europa.eu/trade/policy/countries-and-regions/statistics>.

Second, the EU's tendency to spend money more like a philanthropist than a political player is problematic. The current distribution of financial assistance⁶ is dominated by a development logic, implemented by the European Commission (DG DEVCO) according to generalised political cooperation principles used worldwide. In 2007–2013, most of the reforms supported in EaP countries concerned the improvement of the socio-economic situation⁷ and far fewer referred to the main political priorities of the Partnership (economic integration, visa regime liberalisation and governance issues) as promoted by the EEAS. For this reason too, a written agreement should be concluded between the EEAS and the Commission, on the delimitation of assistance-related powers and competences, in order to facilitate cooperation between the two players.

Third, political intelligence lacks weight. The EEAS simply must address the dearth of diplomats working on the issue of neighbourhood policy both in Brussels and in the delegations. In 2011, the EU Delegations in the Partnership countries had an average of 20–30 people (with the exception of Ukraine, with about 95 people).⁸ In the majority of delegations they consisted mostly of aid and economic personnel with very few employees dealing with the analysis of the political situation in any given country. In the Brussels headquarters, no more than 30 people work on the bilateral and multilateral agenda, concerning either political or organisational issues. If the neighbourhood really is an EU priority, the number of political officers should be increased at the expense of other geographical areas (since an increase of the EEAS budget is not realistic).

Step Two: Creating a Two-speed Partnership

The EaP, which was launched as part of an effort to stabilise the ring of countries around the EU, has become a de facto policy of concentric circles, and must now be pursued as such. The first circle of this differentiated EaP would see a tailored approach towards countries that have made a choice to deepen economic integration with the EU. Currently this is the case for Moldova and Georgia. In such cases, the EU should follow up with enhanced cooperation, securing the implementation of common standards and underpinned by increased financial allocations, even at the expense of other neighbouring countries, according to the “more for more” rule. “Strategic patience” is needed however, bearing in mind the low efficiency of these countries’ administrations and high levels of corruption.⁹ Moreover, the re-allocation of financial means away from recalcitrant states should be used constructively, to push the losers into deeper cooperation rather than occurring “by default.”

The task for the second circle is to maintain a basic level of engagement, albeit by different means. This circle would involve countries not interested in deeper integration with the EU, notably Belarus and Azerbaijan. Even though the EU remains a significant trade partner for the pair,¹⁰ they have not joined the WTO, making them ineligible to enter advanced economic integration with the EU and negotiate DCFTAs. The EU already provides for different policies towards those two undemocratic countries due to

⁶ In the years 2007–2013 this accounted up to €2.3 billion (national allocations of European Neighbourhood and Partnership Instrument funding), http://eeas.europa.eu/enp/documents/index_en.htm.

⁷ For countries that have close relations with the EU, for example, Moldova, reducing poverty was the priority of budget support (supported sectors such as health, water sanitation, economic stimulation in rural areas, environment). In Ukraine, the key areas were transport, environment, and energy. http://eeas.europa.eu/enp/documents/index_en.htm.

⁸ Data from E. Kaca, M. Sus, *The New European Union Diplomacy and the Eastern Partnership*, Institute of Public Affairs, Warsaw, 2011. There was no major evolution in terms of staff increase in the years 2011–2013, due to EEAS budget constraints.

⁹ According to the European Integration Index, the professionalisation of EaP countries’ administrations is still far below EU standards, even in Moldova. The 2012 Transparency International Corruption Perceptions Index places Georgia in 51st place, Moldova—94th, Armenia—105th, Belarus—123rd, Azerbaijan—139th and Ukraine—144th, out of 176 countries, <http://www.transparency.org/cpi2012/results>.

¹⁰ The EU is Belarus’ second main trade partner with a share in the country’s overall trade of almost one third (after Russia). In the case of Azerbaijan, the trade turnover with the EU exceeded 41% of the total share of trade in 2012 but at the same time the trade position of Russia increased. The EU is a significant investor in capital and the oil and gas sector (51% and 36.5% respectively in the last 10 years). Sources: www.mfa.gov.by/en/foreign_trade; P. Liargovas, *EU Trade Policies towards Neighboring Countries*, WP2/01 Search Working Paper, January 2013.

their different geopolitical and economic situations. Belarus is targeted with a democracy-oriented agenda, while Azerbaijan is treated as a purely economic partner. While Belarus needs the EU as a source of assistance, oil-exporter Azerbaijan needs it only as a business partner. Hence, the leverage Brussels has vis-à-vis Baku is much weaker than in the case of Minsk.

The scale of the challenge became clear in September, when Armenia seemingly joined the second club, its president announcing the will to join the Russia led Custom Union. This froze the almost finalised negotiations on a DCFTA with the EU, as the two customs regimes are incompatible. This proves that the EU's position in Armenia is much weaker than Russia's thanks to the latter's dominant position in some crucial sectors (transport, energy and telecommunications), as well as its role in ensuring security guarantees for Armenia in the conflict with Azerbaijan over Nagorno-Karabakh. Meanwhile, Ukraine remains a country in between these two circles, where the rapid signature of Association Agreements and DCFTAs is uncertain due to the detention of the former Prime Minister Yulia Timoshenko. Besides this political problem, Russia is disrupting economic integration with the EU, as evidenced by the trade war with Ukraine in August.

As regards the first circle, then, there are some clear challenges, but some answers too. For one thing, very little DCFTA-related assistance has actually been disbursed in these countries (besides Armenia) meaning that significant preparatory work still needs to be done. After all, the implementation of the DCFTAs is now the EaP's absolute priority, and the volume of funding should therefore increase significantly. In order to boost absorption rates, the EU could therefore create an additional financial and technical instrument dedicated to supporting the implementation of DCFTAs on a project-by-project basis, and directed both at national administrations and other stakeholders such as civil society organisations, small and medium enterprises, and the media.

The EU must also make the most of its limited scope to promote democracy-related reforms. Whilst cooperation usually goes smoothly in non-political sectors (i.e. transport, border management, the water sector) the EU's attempts to push for more institutional reforms tend to fail. Ukraine has, for instance, rejected EU financial support on public administration reform. A balanced approach would therefore be to introduce a greater measure of realism into the EU's democracy-related conditions, and include them in the agreements on financial assistance disbursed on the implementation of DCFTAs. This, coupled with financial support, would give the countries involved targeted incentives. The EU already uses a similar strategy in the roadmaps to obtain a visa-free regime.

Finally, and by the same token, the EU needs to make the conditions related to reforms precise enough to be fulfilled in an extremely limited time frame (no more than three years). The process of setting indicators for reforms should therefore involve deeper discussions with EaP officials and be supported by advisory services in advance of negotiations. Furthermore, the EU should work on concrete guidelines for EU delegations, suggesting how to involve civil society organisations in evaluating the conditions—good practice already used by the EU delegation in Georgia.

As for the second circle, the EU will need to maintain current levels of engagement, targeted to each case, and push for political and economic reform whenever the opportunities arise. It should, however, avoid isolating these countries if these opportunities do not materialise. While the EU might continue to deepen technical cooperation with Azerbaijan, it should at the same time make the human rights agenda more visible, as Azerbaijan holds political prisoners¹¹ and represses civil society. With newcomer Armenia, it should strengthen its communication policy about the DCFTA offer, in order to support public pressure against the signature of a customs union deal. In the case of Ukraine, the EU should decide to sign legally-binding deals as soon as possible. This would provide for a more advanced track with the EU and bring it within the first circle.

¹¹ Political prisoners are also detained in Armenia and Georgia.

More troublesome is Belarus, where democracy-promotion policies have proved unsuccessful for years. Since the 2010 presidential election,¹² EU–Belarus relations have been almost non-existent (apart from some cooperation at a technical level in the EaP multilateral format). However, on both sides, there are currently attempts to restart cooperation. The EU might therefore propose some conditional carrots for Belarus. For instance, additional financial resources for the projects targeting small and medium enterprises (loans) could be allocated. Funding for projects in areas such as energy security, border protection and transport might also be proposed. The informal condition (beside the release of political prisoners) should be that Belarus benefits its society by implementing the small border-traffic agreements signed with Poland and Lithuania in 2010, and concluding a visa-facilitation agreement with the EU.

Step Three: Enhancing Multilateralism

If the EU wants to increase its leverage over the region, it should enhance the dense network of relations between the Eastern partners in the scope of the EaP's multilateral dimension. Creating projects at regional level would physically bind the region more closely with the EU (i.e., through transport infrastructure). Moreover, it would offset and complement the two-circle policy, as this format, encompassing technical and political matters, is flexible and enables the involvement of all EaP countries in chosen themes, both non-political and political. During four years of functioning, this cooperation format has had positive results in terms of familiarising the EaP countries with EU rules, thus providing a further link between the two circles of EaP.¹³ It seems that the most vivid areas of multilateral cooperation are related to economic integration and convergence with EU policies, as the EaP countries are interested in learning how best to fulfil DCFTAs, and are exchanging tips between themselves. The easiest topics for cooperation are technical and non-political questions of a multilateral nature, such as environment and transport. In these fields, EaP countries have worked out some concrete projects (for example, on creating “greener” economies and on maritime transport safety).

However, the multilateral track still faces the challenge of enhancing cooperation between the Eastern partners. In such formats it is naturally very difficult to find common interests, due to the diversity of the countries and even cases of a frozen conflict. Moreover, some areas involve bilateral cooperation with the EU (i.e., public administration, the fight against corruption, and the judiciary) and it is hard to launch concrete multilateral projects besides those focusing on a nonbinding exchange of practices. However, the most easily remedied problem is limited funding for the multilateral dimension (€350 million in 2010–2013), which hampers cooperation and allows for few concrete projects.¹⁴ The information and coordination group gathering third countries interested in supporting EaP activities has not yet brought tangible results in terms of additional funding. New sources of financing should therefore be found, and donor coordination needs to be developed further. The EEAS should be the engine of this process.

If funding still does not materialise for the multilateral dimension, the format must be made more selective in terms of cooperation themes. First of all, it should focus on non-political, technical issues to the maximum possible extent (transport, environment etc). Consideration should also be given to initiating multilateral projects in the scope of the Neighbourhood Investment Facility, the financial mechanism aimed at mobilising additional funding to cover the investment needs for infrastructures in sectors such as transport, energy (including energy efficiency), the environment and social issues. Secondly, support in the scope of the SME flagship initiative should be expanded further, as there is high interest in small and

¹² The current position of “critical engagement” with Belarus involves two paths. On one hand, the EU demands the release of political prisoners and the imposition of sanctions against those Belarusian enterprises and individuals who are responsible for human rights violation as a condition for beginning dialogue. On the other hand, the EU has increased support for Belarusian civil society and started the “Dialogue for Modernisation” project.

¹³ The EaP multilateral format consists of four platforms, on democracy, good governance and stability, economic integration and convergence with EU policies, energy security, contacts between people—in the scope of which different panels and projects are conducted.

¹⁴ The Eastern Partnership Police Cooperation Programme with a €5 million budget; the vessel traffic monitoring system in the scope of TRACECA-Maritime Safety and Security II; EaP-GREEN (Greening Economies in the Eastern Neighbourhood) and Clima East; the SME facility, which involves risk-sharing to raise loans for small and medium enterprises.

medium-sized enterprises in the region.¹⁵ The current SME Facility should provide more capital for early-stage entrepreneurs, and enhance collaboration with other lenders in the private banking sector. The East-Invest project (a component of the SME flagship initiative), focusing on enhancing business networking, could be opened up to third-party countries such as Turkey.

Step Four: Reaching the EaP Societies

The final aspect of the politicisation of EaP would see the EU speaking directly to neighbouring societies and, if needs be, bypassing governments. People in the EaP region do not feel they are well informed about what the EU does in their countries.¹⁶ This problem is well acknowledged by the EU institutions,¹⁷ but until now the EU has had only a modest and fragmented communication policy consisting of internet activities, ad hoc meetings with CSOs at EU delegations, media contacts including press releases, and small scale visibility activities on concrete projects. Therefore, and especially given that the Lithuanian presidency is about to work on the EaP's visibility by putting additional emphasis on adequate funding in the partner countries,¹⁸ a more transparent and long-term communication strategy is needed. The core message should avoid boasting of past accomplishments but focus on explaining the concrete results of cooperation with the EU and its impact on countries' development and people's well being. In terms of tools, the public campaigns should be targeted appropriately, and professional market research involving local partners should be a condition.

The general public information efforts should be assisted by further improvement of EU programmes directed at social multipliers such as civil society organisations and young people. EU policies to the neighbourhood after the Arab Spring have rightly put an emphasis on both aspects. Two new instruments have been created to this end: the Civil Society Facility, a tool supporting the development of CSOs' advocacy capacity and their ability to monitor reform and to participate in policy dialogue (with a budget of €67.3 million in 2011–2013); and, secondly, the European Endowment for Democracy, a non-profit foundation to support democratic political players, including political parties and media (with a budget of €15 million).

Nevertheless, EU aid still suffers from some structural problems and fails to be widely used in the EaP region. It is known and accessible to a small number of highly qualified "professional" NGOs, and the majority of projects are led by the EU-based beneficiaries. A large number of grass-roots organisations from small towns, rural communities, and remote areas are not capable of using it. The reason is the complexity of EU procedures and high thresholds of grants, which are difficult for smaller organisations to manage. Both challenges are hard to overcome, as the European Commission, managing huge sums of EU aid worldwide, fears the misuse of funds if procedures are simplified, and at the same time cannot increase human resources to manage a greater number of smaller grants.

In order to break this vicious circle and widen the number of CSOs targeted by the EU, re-granting should be used more frequently. This procedure enables funds to be disbursed by bigger CSOs to smaller ones, but is currently possible only in the European Democracy and Human Rights Instrument. One option could be to create local CSF outposts in the target countries. These outposts would know the region and would have the right to give limited funds to the local NGOs with considerably simplified procedures. Another option is to endow the national platforms with such rights. Secondly, operational grants and capacity

¹⁵ The SME flagship initiative consists of several components, the East Invest programme (networking, technical assistance on the internationalisation of SMEs), the EBRD TAM/BAS programme (technical assistance), and the SME Facility (EIB, EBRD, KfW), involving loans for SMEs.

¹⁶ EU Neighbourhood Barometer EAST, in comparison with the Spring 2012 survey. http://euneighbourhood.eu/wp-content/uploads/2013/03/ENPIreport_wave2_East.pdf.

¹⁷ Štefan Füle, "While I am confident that we have the right policy framework, I think we need to focus our efforts on implementing our offer and communicating to populations in partner countries so that they can understand the concrete benefits of the European Union offer," *European Neighbourhood Policy: Working towards a Stronger Partnership*, Brussels, 20 March 2013, http://ec.europa.eu/world/enp/docs/2013_enp_pack/2013_comm_conjoint_en.pdf.

¹⁸ "Joint Statement on Eastern Partnership by the Foreign Ministers of Estonia, Latvia, Lithuania and Germany, 21 June 2013," www.am.gov.lv/en/news/press-releases/2013/june/21-2.

building schemes involving support for both technical and organisational development should be disbursed. In the current EU funding schemes in the EaP region, these are almost absent—some training could be funded by the Civil Society Facility.

Young people are the most promising target group for the EU, yet for many years they have been left out of EU considerations. The number of EU–EaP youth exchanges was until recently dramatically low, and it has only been in last two years that the EU has undertaken efforts to increase it. For instance, in the scope of Erasmus, the most popular educational exchange programme, about 2,000 students (participating in both masters and doctoral programmes) arrived in the EU in the years 2004–2011 (through the Erasmus Mundus line). By comparison, about 8,000 Turkish students come to the EU each year, through Erasmus exchanges. After the Arab Spring, the Eastern Partnership Youth Window was created, involving about 21,000 young people and workers in different projects, and funding for Erasmus Mundus and Tempus, the programme of university cooperation, has been increased.¹⁹

The question is whether the trend of extended funding for the EaP region will continue, as a concrete financial decision concerning the programme “Erasmus for All” for 2014–2020 (which will cover all youth exchanges in the EU and third-party countries) has not yet been adopted. Besides an increase in funding for exchanges, some improvements are advisable. For instance the future exchange schemes could finance more internships at EU companies for young professionals from EaP countries. In addition, any university masters programmes and scholarships should involve the condition that the students return to their country of origin after graduation and work there for at least two years (cf. Fulbright scholarship terms) in order to limit the brain drain effect. The exchange programmes should also involve more funding for promoting activities to a wider spectrum of beneficiaries.

Of course, it should not be expected that this proposed policy update to the EU’s communication policy in the EaP region, let alone efforts to strengthen EU diplomacy and the multilateral track record, all underpinned by stronger differentiation, would either lead to rapid changes in the Eastern neighbourhood or make the EU a sharp-toothed political player. However, until the EU recovers from its economic troubles, these are the most pragmatic changes that would better position the EU towards its neighbours and could be the foundations for a potential discussion about the future accession of some of its partners. After all, EU membership more than any other policy can influence domestic changes in neighbouring countries.

¹⁹ *Implementation of the European Neighbourhood Policy in 2012 Regional Report: Eastern Partnership*, 20 March 2013, http://ec.europa.eu/world/enp/docs/2013_enp_pack/2013_eastern_pship_regional_report_en.pdf; also Statistics available at http://eacea.ec.europa.eu/education/index_en.php.